

**FACULTY OF ECONOMIC AND FINANCIAL SCIENCES****DEPARTMENT OF ECONOMICS AND ECONOMETRICS**

SUBJECT	ECONOMICS 2A (ECO22A2)	DATE:	2 June 2016
CAMPUS	SWC	TIME:	08h30-10h30
ASSESSMENT	FINAL EXAM	MARKS:	120
EXAMINER	MR. T. GOPANE	PAGES:	2

SURNAME AND INITIALS _____

STUDENT NUMBER _____

CONTACT NUMBER _____

INSTRUCTIONS:

1. Use mark allocation as a guide to what is required.
2. Round your final answers to two decimal places.
3. Answer all questions.
4. Non-programmable calculators are permitted.
5. You are not allowed to use cell phone as calculator.
5. It is in your interest to show all workings.
6. Label all diagrams and graphs.
7. Write legibly.

1. State 5 standard objectives of macroeconomic policy. Do not discuss. [5]

2. Study the equations below and then answer the questions that follow: [20]

$$Y = C + I + G \quad E1$$

$$C = 900 + 0.75Y \quad E2$$

$$I = 300 \quad E3$$

$$G = 700 \quad E4$$

Use equations E1 to E4, above to answer the following questions:

 - a.) Compute equilibrium Y . (5)
 - b.) Compute equilibrium C . (5)
 - c.) Compute expenditure multiplier, K_E (5)
 - d.) Compute marginal propensity to save (MPS). (5)

3. State 3 theories (or hypotheses) of consumption, Do not discuss. [10]

4. Draw properly labelled graphical diagrams for the following: [20]
 - (a.) Diagram that shows a link between money markets and the real sector, under Keynesian transmission mechanism. (5)
 - (b.) Real sector in equilibrium (5)
 - (c.) Money market in equilibrium (5)
 - (d.) Simultaneous equilibrium in both real sector and money markets. (5)

5. Assume that T-Bill with a maturity of 91 days has a Face Value of R100 000.00. Suppose the current market price of this T-Bill is R94 100.00. [5]
 - a.) Compute the implied nominal interest rate, i . (5)
 - b.) Suppose inflation rate (π) is 5%. Compute the real interest rate, (r). (5)
 - c.) Use your solutions above to provide a general explanation of how nominal interest rate is determined in the money market. (5)

6. You are required to provide a graphical derivation and, then explain the purpose of the IS-LM curves as a tool of economic analysis. [15]

7. Use the Chain Rule method and intuitive explanation to analyse the *knock-on effect* of the internal and external cut in the repo rate. Your answer must be presented as follows [40]
 - a.) Primary Effect – *Policy implementation*. (10)
 - b.) Secondary Effect I – *Money market effect*. (10)
 - c.) Secondary Effect II – *BoP effect of foreign reserves adjustment*. (10)
 - d.) Secondary Effect III – *BoP effect of exchange rate adjustment*. (10)

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